

Weak show, recovery ahead

- Lumax Industries (LIL) posted weak numbers in 1Q due to various challenges such as demand slowdown, supply chain constraints and lower production by OEMs. Revenue de-grew 81% YoY to Rs.780mn (vs est. Rs.1.02bn).
- Molds parts revenue de-grew 64% YoY to Rs.41mn. EBITDA turned negative to Rs.349mn due to negative operating leverage. APAT loss stood at Rs.316mn.
- Given the leadership in the Automotive lighting business, strong relationships with OEMs (MSIL, HMSI & HML) LIL is a good bet to play on recovery in PV & 2W. Although Q1FY21 was a complete washed out, recovery from July onwards is encouraging with production levels having reached 80% of normal levels. Further the company is focused on cost rationalization and preserving cash to help the company tide over the disruption caused by COVID-19.
- We continue to believe that the long term story for Lumax is intact, with an increasing mix of high value LED business, increasing focus of OEMs for content localization and company's efforts to improve profitability by increasing localization levels. We recommend Accumulate with a TP of Rs. 1,513 (based on 18x FY23E EPS).

Key beneficiary of an uptick in MSIL and Hero volume

As lockdown is gradually being lifted, there is recovery in 2W and PVs volumes. Entry level of motorcycles/cars are being preferred due to lower cost of ownership and operating costs, which plays out to be a big positive for MSIL and Hero, who are poised for faster recovery than their peers due to the rural-focused portfolio and market leadership in the entry level segment. MSIL, HMSI and Hero Moto accounts for ~60% of revenue of LIL and would be the key beneficiary of any uptick in volume of these players. LIL's share of business (SOB) in MSIL is 65% for front lighting and 34% for rear lighting. In 2W, SOB for HMSI and Hero Moto stands at 50% and 55% respectively. Moreover, the Company's efforts to rationalize cost, together with integration of in-house electronic facility, and increasing mix of LED will help scale up the margin going forward.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	780	4,020	(80.6)	3,873	(79.9)
Total Expense	1,129	3,637	(69.0)	3,536	(68.1)
EBITDA	(349)	383	(191.0)	337	(203.6)
Depreciation	138	152	(9.3)	163	(15.6)
EBIT	(487)	231	(310.5)	173	(381.1)
Other Income	29	11	167.2	41	(28.6)
Interest	77	46	66.8	63	23.1
EBT	(535)	196	(373.2)	151	(453.6)
Tax	(271)	61	(541.9)	10	(2725.4)
RPAT	(316)	166	(290.8)	164	(293.2)
APAT	(316)	166	(290.8)	164	(293.2)
			(bps)		(bps)
Gross Margin (%)	30.2	38.3	(812)	38.1	(793)
EBITDA Margin (%)	(44.7)	9.5	(5425)	8.7	(5341)
NPM (%)	(40.5)	4.1	(4464)	4.2	(4474)
Tax Rate (%)	50.6	31.3	1933	6.8	4379
EBIT Margin (%)	(62.4)	5.8	(6815)	4.5	(6687)

CMP	Rs 1,392
Target / Upside	Rs 1,513 / 9%
BSE Sensex	37,898
NSE Nifty	11,178

Script Details

Equity / FV	Rs 93mn / Rs 10
Market Cap	Rs 13bn
	US\$ 174mn
52-week High/Low	Rs 1,560/Rs 678
Avg. Volume (no)	9,510
NSE Symbol	LUMAXIND
Bloomberg Code	LUMX IN

Shareholding Pattern Jun'20(%)

Promoters	75.0
MF/Banks/FIs	1
FII's	0.63
Public / Others	23.4

Valuation (x)

	FY21E	FY22E	FY23E
P/E	146.6	21.9	16.6
EV/EBITDA	18.2	9.8	8.2
ROE (%)	2.0	12.5	14.9
RoACE (%)	3.8	9.0	10.6

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	13,319	16,876	19,318
EBITDA	866	1,603	1,874
PAT	89	595	786
EPS (Rs.)	9.5	63.7	84.0

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Exhibit 1: Actual vs DART

Particulars (Rs mn)	Actual	Dart Estimates	VAR (%)	Comments
Revenue	780	1,206	-35%	Weak sales mix
EBIDTA	(349)	(140)	NA	Negative operating leverage
EBIDTA Margin (%)	(44.72)	(11.61)	NA	
PAT	(316)	(248)	NA	

Source: DART, Company

Exhibit 2: Change in Estimates

Rs Mn	FY21E			FY22E		
	New	Previous	% Chg	New	Previous	% Chg
Net sales	13,319	13,084	1.8	16,876	16,374	3.1
EBITDA	866	1,021	(15.2)	1,603	1,556	3.1
EBITDA margin (%)	6.5	7.8	(130.6)bps	9.5	9.5	(0.0) bps
APAT	89	237	(62.5)	595	647	(8.0)
EPS	9	25	(62.5)	64	69	(8.0)

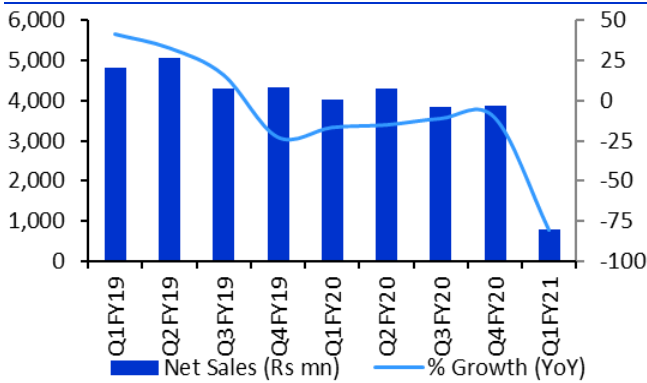
Source: DART, Company

Conference call highlights

- Management expects production level to grow on a YoY basis in September. Production level in July and August was at 80% and 90% respectively. Additionally, increased outsourcing by OEMs by focusing more on localization would help the Auto component manufacture companies like Lumax Ind.
- Gross margin impacted due to higher inventory during the quarter. System inventory would be around 45 days. Forex loss stood at Rs.10-20mn in 1Q. Management expects better volume optimization, product mix and cost rationalization will help to improve the margin going forward.
- Electronic Cable facility will be used for captive purpose for PCB manufacturing. For HVAC panel company is seen good amount of opportunity as most of the demand is currently imported and expected to start the production of the same by H2FY22.
- Q1FY21 revenues mix: PVs was 68%; 2-wheelers was 22% and commercial vehicles was 10%.
- Management expects localization of LED to improve by 15-20% for PV and 5% for 2W in medium term. LED Contribution currently stood at 30% in 1QFY21 and expect it to improve to 50% in the next 3-4 years.
- Higher utilization of working capital led to increase in interest cost. However, management expects interest cost to reduce going forward once utilization improves.
- Revenue from HMSI was impacted largely due to negligible production in 1Q. However, recovery rate is better for MSIL and Hero owing to their product portfolio (low entry cars and bikes) and better rural presence.
- 70% of production process is common across the plant. Margin in front lighting is better compare to rear lighting.
- During the quarter company won new order in 2W segment for HMSI & Piaggio for LED headlamp and in CV segment for TATA's winger for Headlamp and Tail lamp LED, which is helping the company to increase its led revenue.
- Key customer mix as a % of revenue for 1QFY21: MSIL 44%, HMSI 1.4%, Hero Motocorp 18%, M&M 6%, and Tata Motors 5%.

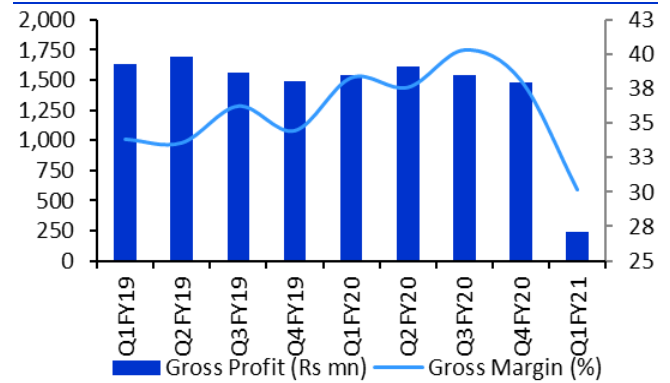
- Long term debt stood at Rs.630mn and working capital debt is Rs.3.2bn by end of 1QFY21. Management expect 1:1.8 to 2X asset turnover going forward.
- Company is benefiting by first mover advantage in LED lighting which is supporting to win new orders.
- To de-risk the dependency on suppliers, OEMs are now engaging with more than 1 supplier for same model.

Exhibit 3: Revenue declined on weak OEMs sales



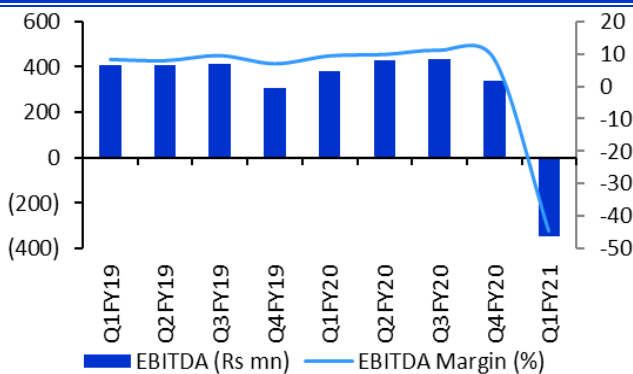
Source: DART, Company

Exhibit 4: Gross Margin contracted YoY/QoQ



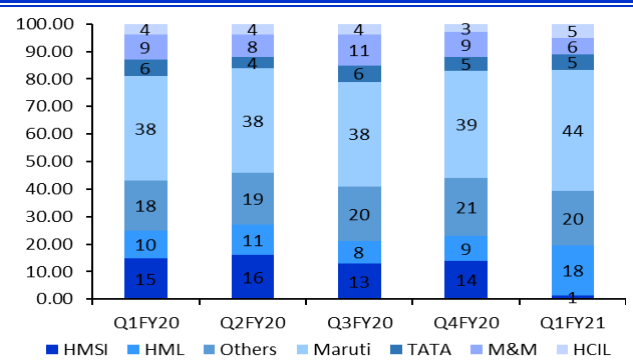
Source: DART, Company

Exhibit 5: EBITDA turned negative



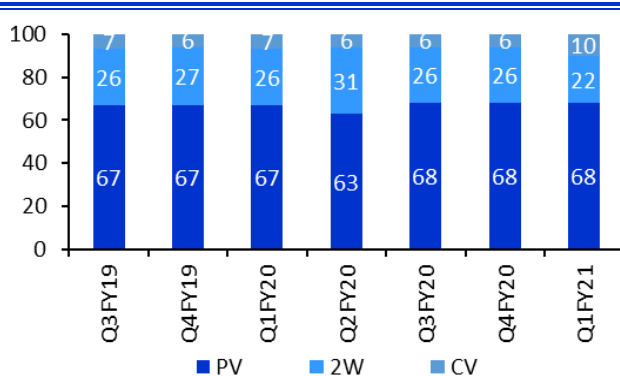
Source: DART, Company

Exhibit 6: Revenue Client mix%



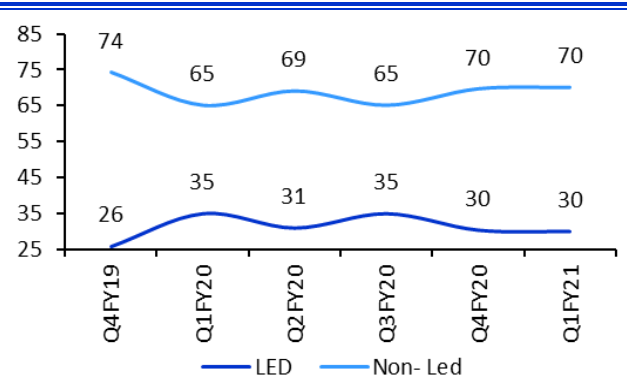
Source: DART, Company

Exhibit 7: Segment revenue contribution %



Source: DART, Company

Exhibit 8: LED/Non-LED share %



Source: DART, Company

Exhibit 9: Key Assumptions

Segment (Rs. Mn)	FY20	FY21E	FY22E	FY23E
Total Revenue	16,016	13,319	16,876	19,318
Y-o-Y growth	-13%	-17%	27%	14%
Passenger Vehicles	9,709	8,252	10,563	12,042
Y-o-Y growth	(14.0)	(15.0)	28.0	14.0
% of sales	66.0	67.0	67.0	67.0
2 wheelers	4,266	3,754	4,580	5,129
Y-o-Y growth	(12.0)	(12.0)	22.0	12.0
% of sales	29.0	30.1	29.0	28.4
Commercial Vehicles	736	463	672	873
Y-o-Y growth	(40.0)	(37.0)	45.0	30.0
% of sales	5.0	2.9	4.0	4.6
Mold Part Revenue	1,306	849	1,061	1,273
Y-o-Y growth	167	(35.0)	25.0	20.0
LED	4,560	3,990	5,693	6,857
Y-o-Y growth	(23)	(12)	43	43
% of sales (ex-mold part)	31.0	32.0	36.0	38.0
Non LED	10,150	8,479	10,121	11,188
Y-o-Y growth	(16.0)	(16.5)	19.4	19.4
% of sales (ex-mold part)	69.0	68.0	64.0	62.0

Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	16,016	13,319	16,876	19,318
Total Expense	14,438	12,453	15,273	17,444
COGS	9,839	8,457	10,632	12,170
Employees Cost	2,099	1,745	2,109	2,415
Other expenses	2,500	2,251	2,531	2,859
EBIDTA	1,578	866	1,603	1,874
Depreciation	635	626	768	838
EBIT	942	239	835	1,036
Interest	219	268	257	230
Other Income	74	81	100	110
Exc. / E.O. items	0	0	0	0
EBT	796	52	678	916
Tax	198	13	173	233
RPAT	598	39	505	682
Minority Interest	0	0	0	0
Profit/Loss share of associates	121	50	90	104
APAT	719	89	595	786

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	93	93	93	93
Minority Interest	0	0	0	0
Reserves & Surplus	4,371	4,448	4,892	5,473
Net Worth	4,465	4,542	4,985	5,566
Total Debt	3,200	3,670	3,340	3,020
Net Deferred Tax Liability	155	155	155	155
Total Capital Employed	7,819	8,367	8,480	8,741

Applications of Funds

Net Block	6,282	6,456	6,588	6,649
CWIP	559	658	591	594
Investments	910	666	844	966
Current Assets, Loans & Advances	5,006	5,059	6,001	6,890
Inventories	1,792	1,533	1,942	2,117
Receivables	1,732	1,751	2,219	2,540
Cash and Bank Balances	380	961	681	707
Loans and Advances	103	83	91	88
Other Current Assets	999	729	1,067	1,436
Less: Current Liabilities & Provisions	4,938	4,472	5,544	6,358
Payables	3,152	2,810	3,514	4,075
Other Current Liabilities	1,786	1,662	2,031	2,283
sub total				
Net Current Assets	68	587	457	532
Total Assets	7,819	8,367	8,480	8,741

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	38.6	36.5	37.0	37.0
EBIDTA Margin	9.8	6.5	9.5	9.7
EBIT Margin	5.9	1.8	4.9	5.4
Tax rate	24.9	25.5	25.5	25.5
Net Profit Margin	3.7	0.3	3.0	3.5
(B) As Percentage of Net Sales (%)				
COGS	61.4	63.5	63.0	63.0
Employee	13.1	13.1	12.5	12.5
Other	15.6	16.9	15.0	14.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.7	0.8	0.7	0.5
Interest Coverage	4.3	0.9	3.2	4.5
Inventory days	41	42	42	40
Debtors days	39	48	48	48
Average Cost of Debt	9.6	7.8	7.3	7.2
Payable days	72	77	76	77
Working Capital days	2	16	10	10
FA T/O	2.5	2.1	2.6	2.9
(D) Measures of Investment				
AEPS (Rs)	76.9	9.5	63.7	84.0
CEPS (Rs)	144.9	76.5	145.8	173.7
DPS (Rs)	23.5	1.2	16.2	21.9
Dividend Payout (%)	30.6	13.1	25.5	26.0
BVPS (Rs)	477.6	485.9	533.3	595.5
RoANW (%)	16.3	2.0	12.5	14.9
RoACE (%)	12.0	3.8	9.0	10.6
RoAIC (%)	14.2	3.2	11.0	13.1
(E) Valuation Ratios				
CMP (Rs)	1392	1392	1392	1392
P/E	18.1	146.6	21.9	16.6
Mcap (Rs Mn)	13,011	13,011	13,011	13,011
MCap/ Sales	0.8	1.0	0.8	0.7
EV	15,830	15,719	15,669	15,323
EV/Sales	1.0	1.2	0.9	0.8
EV/EBITDA	10.0	18.2	9.8	8.2
P/BV	2.9	2.9	2.6	2.3
Dividend Yield (%)	1.7	0.1	1.2	1.6
(F) Growth Rate (%)				
Revenue	(13.5)	(16.8)	26.7	14.5
EBITDA	3.0	(45.1)	85.2	16.9
EBIT	1.5	(74.6)	248.8	24.0
PBT	(36.3)	(93.5)	1203.2	35.0
APAT	(8.4)	(87.7)	570.5	32.0
EPS	(8.4)	(87.7)	570.5	32.0
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	1,033	831	1,357	1,815
CFI	(1,938)	(800)	(900)	(900)
CFF	1,262	550	(736)	(889)
FCFF	(631)	31	457	915
Opening Cash	22	379	961	681
Closing Cash	379	961	681	707

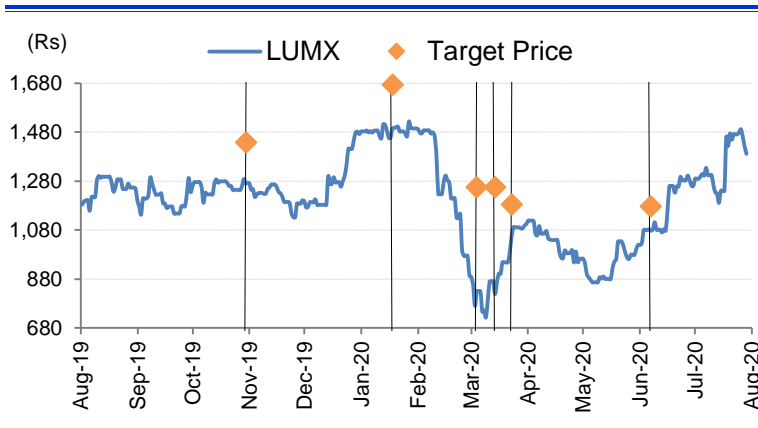
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Buy	1,438	1,272
Feb-20	Accumulate	1,675	1,494
Mar-20	Buy	1,256	831
Mar-20	Buy	1,256	820
Apr-20	Accumulate	1,186	1,056
Jun-20	Accumulate	1,177	1,078

*Price as on recommendation date

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